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SUBJECT: LABOR PROTEST TURNS VIOLENT IN PRESIDENT'S HOME
PROVINCE
REFTEL: (05) BA 2518

1. SUMMARY: A two-week protest by dissident elements of the oil and gas workers union in President Nestor Kirchner's home province of Santa Cruz turned deadly on February 8 when a police officer was killed in the town of Las Heras, Santa Cruz and 15 others were wounded. This is the first death in a social demonstration under President Kirchner, leading critics to call into question once again his administration's laissez-faire policy toward piquetero and union protests. Three years of vigorous economic growth, rising inflation and a tightening labor market have fueled union demands for higher wages and lower taxes and would seem to presage a turbulent year in labor relations. If, however, authorities are seen as responding effectively to the events in Las Heras, the public shock of the police officer's death at the hands of labor protesters could serve to temper more extreme negotiating tactics. END SUMMARY.

LOWER TAXES

2. Following the February 6 arrest of a dissident union leader, a confrontation between oil and gas workers in Santa Cruz Province and provincial security forces turned violent, leaving one police officer dead and 15 others wounded. Since January 23, dissident members of the provincial branch of the Private Oil and Gas Union had been blocking key roads to one of the San Jorge Basin's main oil fields. The principal demand of the workers for Repsol-YPF, Vintage Oil (a small U.S.-owned oil firm soon to be taken over by U.S. Oil Company Occidental Petroleum) and Pan American Energy was that the government raise the floor for the taxable portion of their wages. This is actually an issue being pushed at the national level by the CGT (General Confederation of Workers - Argentina's umbrella labor federation). Since the peso devaluation in 2002, the government has not raised the floor at which salaries begin to be taxed. The de facto effect in the relatively high-wage paying sectors such as the oil and gas industry is that many of their minimum wage earners, formerly exempt from paying taxes, have now been pushed above the taxation threshold. The increased tax base has been one of the reasons for the treasury's burgeoning coffers and explains some of the government's reluctance to tamper with existing tax rates raise. The Casa Rosada is further torn, cognizant of the unwanted stimulatory effect that increased disposable income would have on demand and inflation. (Comment: Oil workers are among the highest paid workers in Argentina. For example, the average salary for Santa Cruz oil

workers is several times the average salary for Santa Cruz Province government workers. End Comment.)

WORKERS OR PROTESTERS?

13. On February 6, provincial police acting on the orders of a local judge attempting to clear the area's roads of the two-week blockade, arrested the dissident faction leader Mario Navarro. Upon learning of his arrest, some 700 fellow workers converged on the municipal building where Navarro was being held. According to media reports, the protest escalated when protesters began to throw rocks and pieces of pavement at the building. The police responded with tear gas and rubber bullets to repel the crowd. Other versions of the story put the protesters on the defensive, saying they did not become aggressive until the police began to use the tear gas. The deceased officer was killed by a blow to the head with an iron bar. He did, however, receive a gunshot to the back and at least five other officers also were wounded by gunfire. The judge ordered Navarro released shortly after the incident. Both sides blame the other for initiating the violence, though no one denies that there were armed protesters present. Navarro blames "infiltrators" and says he advocates only peaceful protest.

GOVERNMENT RESPONSE

14. Federal authorities were quick to respond. President Kirchner sent 250 Gendarmeria officers to Santa Cruz under the supervision of the Secretary for Security. The Gendarmeria, along with provincial security forces, have reopened and are

protecting the highways that were blockaded for more than two weeks. The investigation is under way, but the President and senior officials were quick to denounce the protesters' violence and voice their support for the police. Conspiracy theories abound. In a public event February 8, Kirchner said that he did not believe it a coincidence that the first death to occur at a civil protest during his presidency happened in his home province. He accused "radical sectors" that were unable to gain support during elections of using social protests against the government as a last ditch effort to gain support. Kirchner has said he blames in-fighting between various factions of the oil workers union and believes that provincial police acted appropriately. He further stated that he supported the order that was given to the local police to not use lethal force. Critics say this left the police vulnerable and gave the protesters an opportunity.

15. Comment: The death of the Santa Cruz police officer has shocked the country and has caused some to again question the Kirchner administration's overall approach to handling social protests. Kirchner has received criticism for his perceived indulgence towards protesters and for doing little to resolve disruptive piqueteros, but he has been determined not to risk a repeat of violent protests that led to the premature ends of the presidencies of Fernando de la Rúa in 2001 and Eduardo Duhalde in 2002. This time, though, as Kirchner is quick to emphasize, the casualty was not a piquetero but a police officer. In a year where labor relations and wage demands are predicted to be a major issue, especially in light of growing inflation, the violent events in Santa Cruz do not mark a very promising start. If, however, the government is perceived as addressing the Santa Cruz issue quickly and effectively, the events could have the unintended effect of mitigating some of the more aggressive union tactics in the coming year.

16. Meanwhile, oil companies operating in the San Jorge Basin have lost tens of millions of dollars in lost revenues and the province has lost millions in retentions as a result of the workers' blockage of the oil fields. This is part of a series of increasingly violent piquetero/government employee/oil worker protests that have occurred since President Kirchner took office (REFTEL). The most recent previous protest was the seizure of the TERMAP oil tank farm and export facility in

Caleta, Cordoba in October when a TERMAP security guard received permanent brain damage due to an ax blow to the head. Were it not for the high price of oil and the shortage of exploration/production opportunities elsewhere in the world, at least some of these oil companies would be looking for a friendlier place to invest. End Comment

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